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REVIEWS

KEMMERER'S MODERN CURRENCY REFORMS ¹

THE scope of Professor Kemmerer's *Modern Currency Reforms* is best indicated by its sub-title. A different designation might probably have been more apt, since many of the currency changes described are not particularly modern, and the volume does not include all modern currency reforms. It is a review of certain currency changes undertaken for the most part in countries of minor importance, and leading in most cases to the establishment of the so-called gold exchange standard. Viewed as a discussion of the introduction of the gold exchange standard the book is inclusive, covering the field thoroly. Inasmuch as there is no direct relationship between the several currency experiments which are considered, the volume is almost of necessity a collection of monographs, largely independent of one another. Indeed, there is some internal evidence that the several sections were prepared at different times and under different conditions. The author notes that the material has been in process of collection for a period covering thirteen years.

The plan of the book is primarily historical, and in each of the monographs which compose it the bulk of the space is given to a detailed and very careful account of the successive steps by which given currency problems have been developed and have then been gradually disposed of. This gives the volume its principal value. It impresses the reader as a very complete survey of material, of which large parts are not easily accessible, while other parts are to be found only in

¹ *Modern Currency Reforms*. A history and description of recent currency reforms in India, Porto Rico, Philippine Islands, Straits Settlements and Mexico, by Edwin Walter Kemmerer, Ph D., New York City. The Macmillan Company, New York, 564 pages + xxi.

so fragmentary and disjointed a form that careful and skillful work is necessary to draw them together and to create a logical and consecutive analysis of the situations to which the data refer. A disappointing feature is found in the fact that there is comparatively little discussion of the principles at issue, and that the author's views and opinions are expressed only incidentally and sporadically. In a scientific inquiry it is of course well to be cautious in the expression of mere opinion; yet one of the principal services to be rendered by a work on so technical a subject is that of educating and informing the reader, and of assisting him to reach sound conclusions. In fact there are many cases in which the man of affairs, unfamiliar with Oriental or Latin-American conditions, will probably find it hard to detect the bearing of the material in this volume upon his own commercial and financial interests, even tho they may be closely affected by the conditions set forth.

The tenor and conclusions of the book favor the so-called gold exchange standard, that is, a currency mechanism or arrangement under which a silver circulation is maintained in the hands of the people for actual use, with a provision for satisfactory conversion into the gold currency of some other nation. Thus, in the case of the Philippine Islands, the gold exchange standard rests in practice upon the use of silver or silver certificates by the population, with arrangements for converting these media of exchange into American money either on the spot or at a designated point in the United States. The gold exchange standard, as thus conceived, presents itself as an intermediate condition between the gold standard as such and bimetallism. It avoids the necessity of obtaining or supplying a quantity of gold for actual use, or even for the reserves of banks; it permits the circulation of the less expensive silver, or the still cheaper paper representative of silver; and it avoids the evils attendant upon changes in the ratio of silver to gold by undertaking to maintain a constant and steady basis of convertibility at which silver shall be exchanged for gold or gold equivalents, or *vice versa*. Such a standard of value and exchange can be employed only

for and by a dependent country — one whose financial system is practically subordinate to or controlled by that of another nation. Professor Kemmerer at times seems to regard the gold exchange standard as an independent, self-supporting system. But the whole tenor of his work is to show that the reverse is the case, and that the success of the gold exchange system is in direct ratio to the degree in which the country adopting it is dependent upon another. The author is right in feeling, as he evidently does, that the story of the experience of the several countries has been sufficient to carry a very distinct lesson in regard to the use of this currency expedient, and that a detailed review of what has been done furnishes a valuable lesson as to the prospects of the system for the future and the extent of its applicability.

The best and most complete of the monographs included in the volume is that relating to the Philippine currency reform. Upon the arrival of the American forces in the Philippine Islands, they found a very confused and uncertain currency. The Mexican peso, and a slightly less valuable coin, known as the Spanish-Filipino peso, were in circulation. Various other media of exchange were in use, including bank notes issued by a local institution which enjoyed the exclusive privilege of note issue. All these different kinds of money ordinarily circulated at par with each other and at a value well above the bullion value of the Mexican peso. Serious difficulties were encountered after the installation of the military government, due to the obstacles to the maintenance of satisfactory relations between gold and silver. Disturbance of prices with corresponding suffering to the rank and file of the public, led to a recognition of the necessity for some improvement. The consequence was the bringing forward of various rival proposals: one the establishment of a local gold currency, a second the transplanting of the American currency system to the Philippines, and a third the adoption of the so-called gold exchange standard. The last named was eventually resorted to, and in the act of March 2, 1903, provision was made for the establishment of a gold standard with a theoretical gold peso exactly equal to fifty cents in

United States currency. A silver peso, worth a little less than thirty-eight cents, was provided for, with suitable minor coins, and the issuance of silver certificates was also permitted. Provision was made for a gold reserve, and the Government undertook to maintain the equivalence of Philippine currency and American money under conditions specified in an act passed by the Insular Legislature on October 10, 1903, at ratios ranging from $\frac{3}{4}$ of 1 per cent for demand drafts, to $1\frac{1}{8}$ per cent for cable transfers. Before the system could become fully operative, more or less effort was required to drive out the old currency and secure the introduction of the new money. Eventually the new system was more or less successfully introduced, and after a re-coinage of the new silver had been effected, necessitated by miscalculations in determining the proper content of the original issue, conditions settled to a normal basis. The author reviews at some length the recent uses made of the gold standard reserve fund, a fund maintained by the Government for the purpose of converting local currency into gold (American money), and very properly criticizes the practice of investing it in various long-term enterprises, or depositing it in banks where it passes directly into local use. The only palliation of this practice is found in the fact that at one time the gold standard reserve fund had become abnormally and unnecessarily large, reaching 43 per cent of liabilities. Due to the practices just referred to, however, it has in recent years fallen below 20 per cent. The author thinks that it should be maintained at 25 or 30 per cent, with the funds representing it in a strictly available form. In this he is probably correct, if reference be had merely to the situation existing prior to 1916. The organization of the Philippine National Bank has materially altered the state of things in the Islands and the form in which the currency question presents itself. This volume, however, was prepared before the organization of the new bank.

Very much the same method of treatment as is used in reviewing the history of the Philippine currency reform is applied in dealing with currency changes in India, the Straits

Settlements, and elsewhere. The Indian currency reform is more familiar to monetary students than most of the others dealt with by Professor Kemmerer, and need not be considered in detail. It is enough to say that the Indian system is similar in general to that subsequently adopted in the Philippine Islands, the plan adopted in India being indeed the original from which many copies were made. Professor Kemmerer believes that the test to which the Indian currency has been subjected during the past two or three years has shown the world that "few if any currency systems have more effectively met the shock of world catastrophe." Yet the detailed history of the various currency expedients adopted in India shows that there, as elsewhere, the gold exchange standard is essentially a patchwork expedient, unstable, subject to disturbance by shifts and changes in foreign trade, and requiring constant tinkering in order to function effectively.

In the Straits Settlements another special phase of the gold exchange standard is presented. The Philippines have a fairly normal and constant level of foreign trade with corresponding stability in rates of exchange. In the Straits Settlements variations in exchange are the rule rather than the exception, with the result that the system requires manipulation from time to time and correspondingly more careful management. The Mexican currency system and the transfer of the country to a strict gold standard in 1904-06 is interesting, but is today of historical interest only, in consequence of the disturbances which have brought about a complete breakdown of this carefully constructed gold currency system. Comparatively little instruction is to be had from the experience of Porto Rico, which has its own peculiar features, differentiating it from that of Mexico or the Philippines.

While the critical study of the currency and monetary history of the countries under review furnishes much that is incidentally interesting and instructive, the reader will conclude that the experience set forth in each case lacks breadth, or is vitiated by peculiar and exceptional conditions, to such an extent as to deprive it of world interest, taken by itself;

and he will probably conclude that the main significance of the volume is to be found in its bearing upon the general question of the gold exchange standard as a type of monetary system which may be used more extensively in the future. If he be given to speculation regarding the future, he will, for example, wonder whether some of the European countries who have lost their gold during the present war, and may desire to provide themselves with a cheap substitute for actual use, while nevertheless retaining such stability and permanence as the gold standard may afford, may not seek to make use of something resembling that standard in their own territories. The volume hence possesses a timely interest, and the question arises what are the lessons to be drawn with reference to the working of the various monetary experiments described in it. On this point the conclusion almost certainly would be, as remarked earlier, that the gold exchange system is available only for dependent countries. In short, it is not a monetary system, but a connecting link between an isolated market and the broader market to which it looks for support. It is not available, for example, under conditions where the country employing it is likely to exert a material influence upon conditions in the markets of the nations whose currency unit it has borrowed. The constant adjustment and tinkering with currency legislation and banking and exchange methods, necessary in order to make the system workable under all circumstances would put it practically out of the question except under conditions of almost absolute political control.

Nevertheless, as far as it goes, the gold exchange standard experience is interesting, and it has doubtless been worth while to set it down in this careful and systematic manner. True, much of what has been done is now out of date. Even of very recent years revolutionary conditions and economic developments have altered other portions of the work. Experience has shown that it is difficult for any nation to get the benefits of the gold standard without paying for them. Yet it is possible that in the years after the European war, monetary and banking systems throughout the world will be subjected to

extensive revision. Under these circumstances currency legislators and administrators will need the aid of all the exact information they can get, and will have to shape their conduct upon a broad basis of fact and conclusion. These considerations afford full justification for the publication of a volume like that of Professor Kemmerer. It will prove not least useful as a reference handbook.

H. PARKER WILLIS.

FEDERAL RESERVE BOARD,
WASHINGTON, D. C.

BARNETT AND McCABE'S MEDIATION, INVESTIGATION AND ARBITRATION; MOTE'S INDUSTRIAL ARBITRATION ¹

THE failure of Congress to provide funds for the publication of the reports made to the Commission on Industrial Relations by the investigators employed to conduct special inquiries in certain fields has, fortunately, led some of the investigators to provide for the independent publication of the fruits of their researches. Among them is this small book by Professors Barnett and McCabe.

Altho the title does not indicate it, the work deals only with mediation, investigation and arbitration in the United States. Furthermore, it does not pretend to cover the entire field; it does not deal at all with private efforts to settle industrial disputes, such as the protocols in the sewing trades of New York City; and in dealing with public efforts in this field, the discussion is limited to a very brief account of the work accomplished in recent years in Massachusetts, New York

¹ Mediation, Investigation and Arbitration in Industrial Disputes By George E. Barnett and David A. McCabe New York, D. Appleton and Company, 1916, pp 209.

Industrial Arbitration: A World-Wide Survey of Natural and Political Agencies for Social Justice and Industrial Peace By Carl H. Mote Indianapolis, The Bobbs-Merrill Company, 1916, pp 321 + xlv